

**Fiscal Services Division**  
**Legislative Services Agency**  
**Fiscal Note**

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SF 2123 – Internal Revenue Code Update Bill (LSB 5496 SV.1)  
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Fiscal Note Version – As amended by the House

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**Description**

Senate File 2123 updates the Code of Iowa to incorporate changes to the federal Internal Revenue Code (IRC) enacted during calendar year 2007. The Bill is retroactive to January 1, 2007.

The House amended SF 2123 to include additional conformity with recently-enacted federal legislation relating to the ability of businesses to expense certain purchases (referred to as Section 179 expensing).

**Background**

Three federal Acts were determined to have a total of four provisions with significant and measurable impacts on Iowa revenue when the Code of Iowa is updated to incorporate the federal changes through passage of this Bill. The fiscal impact is the estimated net impact of all four provisions. The provisions relate to:

- Increasing and extending Section 179 depreciation expensing
- Excluding discharge of home mortgage debt from taxable income
- Extending itemized deduction of home mortgage insurance premiums
- Excluding from income certain benefits provided to volunteer EMS and firefighters

An additional federal Act (H.R. 5140) was approved by Congress in February 2008. That Act increased and expanded depreciation allowances for qualified business expenses. The House-passed version of SF 2123 allows Iowa taxpayers to benefit from the expanded Section 179 expensing permitted under the federal Act. The House action does not address the “bonus depreciation” provisions of H.R. 5140.

**Fiscal Impact**

The original Fiscal Note has been revised for SF 2123. The following table provides the estimated General Fund impact for the original Fiscal Note, the revised estimate for the Senate-passed Bill, and the estimate for the Bill as passed by the House.

	Senate Version Original Fiscal Note	Senate Version Revised	As Passed by the House
FY 2008	\$-0.3	\$-0.6	\$-0.6
FY 2009	-1.1	-1.4	-2.8
FY 2010	0.0	-4.2	-5.1

For future fiscal years, FY 2011 through FY 2018, conforming Iowa tax laws as provided in SF 2123 as passed the House is expected to increase net General Fund revenue by a total of \$2.2 million.

### **Related Revenue Issue**

Since Iowa allows all taxpayers to deduct federal income tax paid from their State taxable income, when Congress takes actions that reduce federal taxes owed, most Iowa taxpayers see a corresponding increase in their State tax bill. The State tax bill increases occur automatically when federal tax reductions are enacted and do not take legislative action. The Department of Revenue estimates that this "deductibility effect" will increase net General Fund revenue by the following amounts, including all federal legislation enacted through February 2008.

- FY 2008: \$ 0.0 million
- FY 2009: \$ 4.3 million
- FY 2010: \$ 9.2 million

For future fiscal years, FY 2011 through FY 2018, the deductibility effect is expected to reduce net General Fund revenue by a total of \$11.4 million.

Special Note: Federal action to extend the Alternative Minimum Tax (AMT) exemption for tax year 2007 had a significant deductibility impact on Iowa taxpayers. However, the Revenue Estimating Conference anticipated the federal AMT action when developing FY 2008 and FY 2009 estimates so adjustments for federal AMT action are not necessary.

Also, the February 2008 federal legislation provided economic stimulus payments to Iowa taxpayers. Under Iowa law, those payments would be subject to Iowa income tax. The deductibility impact of those payments is addressed in the Fiscal Note for HF 2417 (Federal Stimulus Payment Tax Exemption Act of 2008).

### **Source**

Department of Revenue

/s/ Holly M. Lyons

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March 4, 2008

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

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